

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Imlay City, Michigan</u>	County Lapeer
Audit Date June 30, 2005	Opinion Date October 14, 2005	Date Accountant Report Submitted To State: December 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State Michigan	ZIP 48043
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Inlay City, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Imlay City, Michigan

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## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Assets	14
Statement of Revenue, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16
Fiduciary Fund - Agency Fund - Statement of Assets and Liabilities	17
Notes to Financial Statements	18-33
<b>Required Supplemental Information</b>	34
Budgetary Comparison Schedule - General Fund	35
Budgetary Comparison Schedule - Major Special Revenue Fund - Lamb Steele Fund	36
Budgetary Comparison Schedule - Major Special Revenue Fund - Major Streets Fund	37
Note to Required Supplemental Information	38

# City of Imlay City, Michigan

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## Contents (Continued)

<b>Other Supplemental Information</b>	<b>39</b>
Nonmajor Governmental Funds:	
Combining Balance Sheet	40-41
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	42-43
Internal Service Funds:	
Combining Statement of Net Assets	44
Combining Statement of Revenue, Expenses, and Changes in Net Assets	45
Combining Statement of Cash Flows	46



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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Commission  
City of Imlay City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Imlay City, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Imlay City, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Imlay City, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and  
Members of the City Commission  
City of Imlay City, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Imlay City, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 14, 2005

# City of Imlay City, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Imlay City, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$18,600 this year. The City's proactive response to the decline in state-shared revenue was to closely monitor and continually evaluate General Fund revenue trends as well as expenditure trends, especially in the areas of personnel benefit costs and staffing levels and discretionary programming and capital projects, in order to achieve economies of scale, operational efficiencies, cost reductions, and justification for capital expenditures.
- Total net assets related to the City's governmental activities increased by approximately \$980,400.
- The City began a long-term investment in its infrastructure by petitioning the Lapeer County Drain Commissioner to construct improvements to the Imlay Bigelow storm drain. This project was funded by the sale of \$3.1 million in municipal bonds. The City prepaid \$450,000 from the fund balance of the General Fund for these improvements. The drain project was complemented by upgrades in street paving, curbs and gutters, and sidewalks, which are being funded by an additional bond issuance of \$1.4 million.
- The additions of left turn lanes on South Almont Avenue at Newark Road and a traffic signal were funded by a transportation grant and Act 51 funds.
- The City invested in the purchase of property located at 120 North Main Street. The former school bus garage could potentially be rehabilitated for a commercial incubator, or, alternatively, demolished and redeveloped. This enhancement is expected to complement the Downtown Streetscape Improvement project.
- Michigan Economic Development Corporation, Michigan State Housing Development Authority, and the Downtown Development Authority collaborated to fund over \$1 million in streetscape improvements in the downtown area. This revitalization project is the culmination of planning efforts over the last four years.

# City of Imlay City, Michigan

## Management's Discussion and Analysis (Continued)

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005. Prior data is not available.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current assets	\$ 5,760,987	\$ 3,823,938	\$ 1,618,503	\$ 1,269,878	\$ 7,379,490	\$ 5,093,816
Noncurrent assets	<u>4,274,819</u>	<u>3,663,498</u>	<u>10,093,644</u>	<u>10,443,610</u>	<u>14,368,463</u>	<u>14,107,108</u>
Total assets	10,035,806	7,487,436	11,712,147	11,713,488	21,747,953	19,200,924
<b>Liabilities</b>						
Current liabilities	336,181	515,442	263,390	124,475	599,571	639,917
Long-term liabilities	<u>2,549,133</u>	<u>801,900</u>	<u>3,910,000</u>	<u>4,195,000</u>	<u>6,459,133</u>	<u>4,996,900</u>
Total liabilities	<u>2,885,314</u>	<u>1,317,342</u>	<u>4,173,390</u>	<u>4,319,475</u>	<u>7,058,704</u>	<u>5,636,817</u>
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	3,988,737	3,019,004	5,983,644	6,248,610	9,972,381	9,267,614
Restricted	547,475	198,918	436,164	425,953	983,639	624,871
Unrestricted	<u>2,614,280</u>	<u>2,952,172</u>	<u>1,118,949</u>	<u>719,450</u>	<u>3,733,229</u>	<u>3,671,622</u>
Total net assets	<u>\$ 7,150,492</u>	<u>\$ 6,170,094</u>	<u>\$ 7,538,757</u>	<u>\$ 7,394,013</u>	<u>\$ 14,689,249</u>	<u>\$ 13,564,107</u>

The City's combined net assets increased 8 percent from a year ago, increasing from \$13,564,107 to \$14,689,249.

The current level of unrestricted net assets for our governmental activities stands at \$3,733,229.



# City of Imlay City, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 464,188	\$ 560,776	\$ 1,495,034	\$ 1,396,609	\$ 1,959,222	\$ 1,957,385
Operating grants and contributions	380,750	570,162	-	-	380,750	570,162
Capital grants and contributions	578,189	117,946	-	-	578,189	117,946
General revenue:						
Property taxes	1,246,539	1,150,533	493,315	449,644	1,739,854	1,600,177
State-shared revenue	420,447	439,038	-	-	420,447	439,038
Unrestricted investment earnings	83,767	78,824	30,848	23,351	114,615	102,175
Franchise fees	30,620	31,571	-	-	30,620	31,571
Transfers and other revenue	34,985	25,000	(34,985)	(25,000)	-	-
<b>Total revenue</b>	<b>3,239,485</b>	<b>2,973,850</b>	<b>1,984,212</b>	<b>1,844,604</b>	<b>5,223,697</b>	<b>4,818,454</b>
<b>Program Expenses</b>						
General government	257,957	110,487	-	-	257,957	110,487
Public safety	970,772	1,085,050	-	-	970,772	1,085,050
Public works	794,674	1,053,036	-	-	794,674	1,053,036
Recreation and culture	114,447	101,159	-	-	114,447	101,159
Interest on long-term debt	121,237	25,885	-	-	121,237	25,885
Water and sewer	-	-	1,839,468	1,806,526	1,839,468	1,806,526
<b>Total program expenses</b>	<b>2,259,087</b>	<b>2,375,617</b>	<b>1,839,468</b>	<b>1,806,526</b>	<b>4,098,555</b>	<b>4,182,143</b>
<b>Change in Net Assets</b>	<b>\$ 980,398</b>	<b>\$ 598,233</b>	<b>\$ 144,744</b>	<b>\$ 38,078</b>	<b>\$ 1,125,142</b>	<b>\$ 636,311</b>

### Governmental Activities

The City's total governmental revenues increased by \$265,635, despite decreases in state-shared revenue. The increase was due primarily to the continuing increase in property taxes, investment income, and grant funds.

Expenditures were reduced by \$116,530 as the City closely monitored its spending in all areas, including seasonal hiring and overtime wages.

### Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City provides water to residents from the Detroit Water System, and sewage treatment through a city-owned and operated sewage treatment plant. Program activities resulted in an excess of revenue over expenditures due in part to new users tapping into the system.

# **City of Imlay City, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **The City's Funds**

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City's major funds for 2005 include the General Fund, Lamb Steele Special Revenue Fund, Major Streets Special Revenue Fund, and the 2005 Capital Projects Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$970,772 in the 2005 fiscal year. The cost of the police and fire departments is funded by general revenue sources of the General Fund.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was to increase the investment in land with the purchase of the property at 120 North Main Street. Additionally, the City prepaid \$450,000 of an assessment for the Imlay Bigelow Drain. The General Fund's fund balance decreased from \$1,461,256 to \$1,109,369 at June 30, 2005.

### **Capital Asset and Debt Administration**

At the end of 2005, the City had \$14,368,463 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines.

During the year, the City refunded Water and Sewer Fund general obligation bonds. In addition, new bonds were issued to fund upgrades in street paving, curbs and gutters, and sidewalks, which complement the Bigelow Drain project.

### **Economic Factors and Next Year's Budgets and Rates**

It is expected that the City's property tax millage will remain the same in 2006. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions.

# **City of Imlay City, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office located at 150 North Main Street, Imlay City, Michigan 48444.

# City of Imlay City, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 2)	\$ 4,350,251	\$ 940,092	\$ 5,290,343	\$ 104,778
Accounts receivable:				
Accounts	188,270	185,289	373,559	-
Intergovernmental	125,169	-	125,169	-
Prepaid costs and other assets	-	56,958	56,958	-
Restricted assets (Note 7)	-	436,164	436,164	-
Intangible assets (Note 4)	1,097,297	-	1,097,297	-
Capital assets (Note 4):				
Not depreciated	1,282,585	55,798	1,338,383	-
Depreciated	2,992,234	10,037,846	13,030,080	-
Total assets	10,035,806	11,712,147	21,747,953	104,778
<b>Liabilities</b>				
Accounts payable	18,828	53,287	72,115	94
Accrued and other liabilities	4,666	10,103	14,769	-
Deposits	56,692	-	56,692	-
Noncurrent liabilities (Note 6):				
Due within one year	255,995	200,000	455,995	-
Due in more than one year	2,549,133	3,910,000	6,459,133	-
Total liabilities	2,885,314	4,173,390	7,058,704	94
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	3,988,737	5,983,644	9,972,381	-
Restricted:				
Drug forfeiture	3,926	-	3,926	-
Industrial development	50,882	-	50,882	-
Street projects	492,667	-	492,667	-
Bond ordinances	-	436,164	436,164	-
Unrestricted	2,614,280	1,118,949	3,733,229	104,684
Total net assets	\$ 7,150,492	\$ 7,538,757	\$ 14,689,249	\$ 104,684

# City of Imlay City, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 257,957	\$ 307,249	\$ -	\$ 424,675
Public safety	970,772	48,121	99,367	-
Public works	794,674	89,977	281,383	153,514
Recreation and culture	114,447	18,841	-	-
Interest on long-term debt	121,237	-	-	-
Total governmental activities	2,259,087	464,188	380,750	578,189
Business-type activities - Water and sewer	1,839,468	1,495,034	-	-
Total primary government	<u>\$ 4,098,555</u>	<u>\$ 1,959,222</u>	<u>\$ 380,750</u>	<u>\$ 578,189</u>
Component unit - Downtown Development Authority	<u>\$ 435,196</u>	<u>\$ 2,299</u>	<u>\$ 75,075</u>	<u>\$ 144,101</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Transfers				
Total general revenues and transfers				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ 473,967	\$ -	\$ 473,967	\$ -
(823,284)	-	(823,284)	-
(269,800)	-	(269,800)	-
(95,606)	-	(95,606)	-
(121,237)	-	(121,237)	-
(835,960)	-	(835,960)	-
-	(344,434)	(344,434)	-
(835,960)	(344,434)	(1,180,394)	-
-	-	-	(213,721)
1,246,539	493,315	1,739,854	230,455
420,447	-	420,447	-
83,767	30,848	114,615	5,863
30,620	-	30,620	-
34,985	(34,985)	-	-
1,816,358	489,178	2,305,536	236,318
980,398	144,744	1,125,142	22,597
6,170,094	7,394,013	13,564,107	82,087
<u>\$ 7,150,492</u>	<u>\$ 7,538,757</u>	<u>\$ 14,689,249</u>	<u>\$ 104,684</u>

# City of Imlay City, Michigan

## Governmental Funds Balance Sheet June 30, 2005

	General Fund	Special Revenue - Lamb Steele Fund	Special Revenue - Major Streets Fund	2005 Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments	\$ 990,036	\$ 1,387,113	\$ 359,519	\$ 1,247,786	\$ 275,267	\$ 4,259,721
Receivables:						
Accounts	188,270	-	-	-	-	188,270
Intergovernmental	83,782	-	31,605	-	9,782	125,169
Total assets	<u>\$ 1,262,088</u>	<u>\$ 1,387,113</u>	<u>\$ 391,124</u>	<u>\$ 1,247,786</u>	<u>\$ 285,049</u>	<u>\$ 4,573,160</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 15,808	\$ 102	\$ 899	\$ -	\$ 900	\$ 17,709
Deposits	56,691	-	-	-	-	56,691
Deferred revenue (Note 3)	80,220	-	16,808	-	5,202	102,230
Total liabilities	152,719	102	17,707	-	6,102	176,630
<b>Fund Balances</b>						
Reserved for debt service	-	-	-	-	-	-
Unreserved:						
Designated for:						
Environmental remediation	30,000	-	-	-	-	30,000
Industrial Park loan repayment	135,236	-	-	-	-	135,236
Capital improvements	374,133	-	-	-	-	374,133
Undesignated, reported in:						
General Fund	570,000	-	-	-	-	570,000
Capital Projects Fund	-	-	-	1,247,786	-	1,247,786
Debt Service Fund	-	-	-	-	2,267	2,267
Special Revenue Funds	-	1,387,011	373,417	-	276,680	2,037,108
Total fund balances	<u>1,109,369</u>	<u>1,387,011</u>	<u>373,417</u>	<u>1,247,786</u>	<u>278,947</u>	<u>4,396,530</u>
Total liabilities and fund balances	<u>\$ 1,262,088</u>	<u>\$ 1,387,113</u>	<u>\$ 391,124</u>	<u>\$ 1,247,786</u>	<u>\$ 285,049</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	4,042,584
Intangible assets recognized in governmental activities	1,097,297
Receivables are expected to be collected over several years and are not available to pay current year expenditures	102,230
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(2,805,128)
Internal Service Funds are included as part of governmental activities	321,645
Accrued interest is recorded when due in the governmental funds and when incurred on the statement of activities	(4,666)

Net assets of governmental activities \$ 7,150,492

# City of Imlay City, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Special Revenue - Lamb Steele Fund	Special Revenue - Major Streets Fund	2005 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>						
Property taxes	\$ 1,327,323	\$ -	\$ -	\$ -	\$ -	\$ 1,327,323
Licenses and permits	30,112	-	-	-	-	30,112
Federal revenue	99,367	-	254,988	-	-	354,355
State revenue	435,516	-	380,850	-	60,776	877,142
Charges for services	374,003	-	-	-	-	374,003
Fines and forfeitures	2,981	-	-	-	485	3,466
Interest and rentals	51,686	99,295	4,057	-	4,754	159,792
Other	12,790	7,500	-	-	5,097	25,387
<b>Total revenue</b>	<b>2,333,778</b>	<b>106,795</b>	<b>639,895</b>	<b>-</b>	<b>71,112</b>	<b>3,151,580</b>
<b>Expenditures</b>						
Current:						
General government	947,356	-	-	-	-	947,356
Public safety	921,652	-	-	-	731	922,383
Public works	349,039	43,657	271,389	-	74,662	738,747
Recreation and culture	92,482	-	-	-	-	92,482
Capital outlay	170,777	-	-	128,610	-	299,387
Debt service	173,827	-	-	31,059	106,330	311,216
<b>Total expenditures</b>	<b>2,655,133</b>	<b>43,657</b>	<b>271,389</b>	<b>159,669</b>	<b>181,723</b>	<b>3,311,571</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(321,355)</b>	<b>63,138</b>	<b>368,506</b>	<b>(159,669)</b>	<b>(110,611)</b>	<b>(159,991)</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds from issuance of bond	-	-	-	1,407,455	-	1,407,455
Transfers in	15,000	-	-	-	143,064	158,064
Transfers out	(45,532)	(7,500)	(70,047)	-	-	(123,079)
<b>Total other financing sources (uses)</b>	<b>(30,532)</b>	<b>(7,500)</b>	<b>(70,047)</b>	<b>1,407,455</b>	<b>143,064</b>	<b>1,442,440</b>
<b>Net Change in Fund Balances</b>	<b>(351,887)</b>	<b>55,638</b>	<b>298,459</b>	<b>1,247,786</b>	<b>32,453</b>	<b>1,282,449</b>
<b>Fund Balances - Beginning of year</b>	<b>1,461,256</b>	<b>1,331,373</b>	<b>74,958</b>	<b>-</b>	<b>246,494</b>	<b>3,114,081</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,109,369</b>	<b>\$ 1,387,011</b>	<b>\$ 373,417</b>	<b>\$ 1,247,786</b>	<b>\$ 278,947</b>	<b>\$ 4,396,530</b>



# City of Imlay City, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>1,282,449</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense		(162,024)
Capitalized capital outlay		825,816

Government funds report payments for assets where we have a usage right as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as amortization:

Amortization expense		(57,600)
Capitalized expenditures		1,154,897

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds

(6,496)

Issuance of bond obligation is revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt)

(1,440,000)

Incurrence of debt obligations are recorded in the statement of activities

(704,897)

Repayment of bond principal and installment purchase agreements is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

151,838

Increase in accumulated employee sick and vacation pay and decrease in environmental liability are recorded when earned in the statement of activities

(16,557)

Internal Service Funds are also included as governmental activities

(41,218)

Decrease in accrued interest is recorded when incurred in the statement of activities

3,442

Other

(9,252)

**Change in Net Assets of Governmental Activities**

**\$ 980,398**

# City of Imlay City, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2005

	Enterprise - Water and Sewer Fund	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and investments (Note 2)	\$ 940,092	\$ 90,530
Receivables - Customers	185,289	-
Prepaid costs and other assets	56,958	-
Total current assets	1,182,339	90,530
Noncurrent assets:		
Restricted assets (Note 7)	436,164	-
Capital assets - Net (Note 4)	10,093,644	232,235
Total noncurrent assets	10,529,808	232,235
Total assets	11,712,147	322,765
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	53,287	1,120
Accrued and other liabilities	10,103	-
Current portion of long-term debt (Note 6)	200,000	-
Total current liabilities	263,390	1,120
Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	3,910,000	-
Total liabilities	4,173,390	1,120
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	5,983,644	232,235
Restricted for bond ordinances	436,164	-
Unrestricted	1,118,949	89,410
Total net assets	<u>\$ 7,538,757</u>	<u>\$ 321,645</u>

# City of Imlay City, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Enterprise - Water and Sewer Fund	Internal Service Funds
<b>Operating Revenue</b> - Charges for services	\$ 1,495,034	\$ 96,808
<b>Operating Expenses</b>		
Salaries, wages, and fringe benefits	324,936	44,653
Supplies	20,315	4,616
Repairs and maintenance	107,451	12,552
Insurance	19,248	22,218
Utilities	74,572	-
Purchase of water	544,381	-
Other services and supplies	194,550	9,748
Depreciation and amortization	349,966	45,772
Total operating expenses	<u>1,635,419</u>	<u>139,559</u>
<b>Operating Loss</b>	(140,385)	(42,751)
<b>Nonoperating Revenue (Expense)</b>		
Property taxes	493,315	-
Investment income	30,848	1,731
Interest expense	(204,049)	(198)
Total nonoperating revenue	<u>320,114</u>	<u>1,533</u>
<b>Income (Loss) - Before transfers</b>	179,729	(41,218)
<b>Transfers from (to) Other Funds</b>	<u>(34,985)</u>	<u>-</u>
<b>Change in Net Assets</b>	144,744	(41,218)
<b>Net Assets - Beginning of year</b>	<u>7,394,013</u>	<u>362,863</u>
<b>Net Assets - End of year</b>	<u><b>\$ 7,538,757</b></u>	<u><b>\$ 321,645</b></u>

# City of Imlay City, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Enterprise - Water and Sewer Fund	Internal Service Funds
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 1,477,271	\$ 97,069
Payments to suppliers	(1,021,978)	(48,015)
Payments to employees	(324,560)	(44,653)
Net cash provided by operating activities	130,733	4,401
<b>Cash Flows from Noncapital Financing Activities -</b>		
Interfund transfers out to other funds	(34,985)	-
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal and interest paid on capital debt	(289,049)	(7,683)
Collection of property taxes	493,315	-
Net cash provided by (used in) capital and related financing activities	204,266	(7,683)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	36,990	2,281
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	337,004	(1,001)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,039,252	91,531
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,376,256</b>	<b>\$ 90,530</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Cash and investments	\$ 940,092	\$ 90,530
Restricted assets (Note 7)	436,164	-
Total	<b>\$ 1,376,256</b>	<b>\$ 90,530</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (140,385)	\$ (42,751)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	349,966	45,772
Changes in assets and liabilities:		
Receivables	(27,160)	35
Other assets	9,397	225
Accounts payable	(61,461)	1,119
Other liabilities	376	-
Net cash provided by operating activities	<b>\$ 130,733</b>	<b>\$ 4,400</b>

# City of Imlay City, Michigan

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## **Fiduciary Fund - Agency Fund Statement of Assets and Liabilities June 30, 2005**

<b>Assets</b> - Cash and investments (Note 2)	<u><u>\$ 2,591</u></u>
<b>Liabilities</b> - Amounts due to other governmental units	<u><u>\$ 2,591</u></u>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Imlay City, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Imlay City, Michigan:

#### **Reporting Entity**

The City of Imlay City, Michigan was incorporated in 1970 and is located in Lapeer County, Michigan. The City is organized under Michigan's Comprehensive Home Rule City Act. City government is directed by a seven-member City Commission elected by the community at large. The legislative body selects the mayor from among its members and appoints a city manager to administer the affairs of the City. The City provides services to approximately 3,900 residents as authorized by its charter. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

**Discretely Presented Component Unit** - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is selected by the City Commission. In addition, the DDA's budget is subject to approval by the City Commission.

**Jointly Governed Organization** - The City is a member of the Lapeer County Emergency Medical Service (the "Authority"), a joint venture that operates under the Urban Corporation Act of 1967. Various local units of government within Lapeer County have elected to provide ambulance services to residents within their area by joining the Authority. Each local unit appoints one individual to serve on the board of directors. The Lapeer County Emergency Medical Service has locations in Lapeer, North Branch, and Imlay City. During the year ended June 30, 2005, the City contributed approximately \$11,607 toward the Authority's operations. The City's interest in net assets of the Authority is not significant.

As a result of the financial difficulties incurred by the Authority, the City may be required to make additional contributions in future periods to sustain the Authority's operations. The amount and timing of the City's contributions, if any, are not known at this time.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Complete financial statements for the Lapeer County Emergency Medical Service can be obtained from Lapeer County Emergency Medical Service, 3056 Davison Road, Suite 1, Lapeer, Michigan 48446.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and any revenue associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Lamb Steele Fund** - The Lamb Steele Fund is used to account for the revenues and expenditures associated with the Lamb Steele building.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are for use on major streets.

**2005 Capital Projects Fund** - The 2005 Capital Projects Fund accounts for the expenditures made with debt proceeds in relation to the Imlay Bigelow Drain project.

The City reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

**Internal Service Funds** - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2004 tax is levied and collectible on July 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled \$97.899 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 13 mills for operating purposes and 4.75 mills for Water and Sewer Enterprise Fund debt service. Including delinquent taxes collected, this resulted in tax revenue of \$1,285,726 in the General Fund for operating purposes and \$493,315 for Water and Sewer Enterprise Fund for debt service.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts, which are not significant.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 years
Water and sewer system	20 to 70 years
Treatment plant and water tower	40 to 50 years
Building improvements	50 years
Vehicles	3 to 5 years
Machinery and other equipment	5 to 10 years

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits.

All vacation pay and 50 percent of sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 14 banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$3,810,551 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the City has U.S. government bonds held by the counterparty with a fair market value of \$1,293,985 that are uninsured and unregistered.

# City of Imlay City, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Maturity Date
Federal Home Loan Bank	\$ 400,000	May 15, 2006
Federal Home Loan Bank	400,000	November 15, 2006
Federal Home Loan Bank	248,595	December 20, 2007
Federal National Mortgage Association	245,390	January 12, 2007

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Federal Home Loan Bank Bonds	\$ 1,048,595	AAA	S&P
Federal National Mortgage Association	248,595	AAA	S&P

**Concentration of Credit Risk** - The City places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in Federal Home Loan Bank Bonds and Federal National Mortgage Association; these investments are 70.7 percent and 16.55 percent, respectively, of the City's total investments.

### Note 3 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists solely of unavailable revenue totaling \$102,230.

# City of Imlay City, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 846,694	\$ -	\$ -	\$ 846,694
Construction in progress	-	435,891	-	435,891
Subtotal	846,694	435,891	-	1,282,585
Capital assets being depreciated:				
Land improvements	168,204	-	-	168,204
Roads and sidewalks	281,302	153,514	-	434,816
Buildings and improvements	2,064,770	125,000	-	2,189,770
Machinery and equipment	1,535,705	111,411	33,500	1,613,616
Vehicles	759,662	-	-	759,662
Subtotal	4,809,643	389,925	33,500	5,166,068
Accumulated depreciation:				
Land improvements	118,578	29,580	-	148,158
Buildings and improvements	702,562	42,381	-	744,943
Machinery and equipment	690,044	90,063	26,801	753,306
Vehicles	481,655	45,772	-	527,427
Subtotal	1,992,839	207,796	26,801	2,173,834
Net capital assets being depreciated	2,816,804	182,129	6,699	2,992,234
Net capital assets	\$ 3,663,498	\$ 618,020	\$ 6,699	\$ 4,274,819

At June 30, 2005, the City also has \$1,097,297 in unamortized intangible assets. The entire balance relates to a drain not owned by municipality that will be used by its citizens. The City has paid \$450,000 in the current year and is obligated to pay \$704,897 over the next 20 years (see Note 6). Amortization expense of \$57,600 was recognized in governmental activities in the current year.

# City of Imlay City, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated - Land and land rights	\$ 55,798	\$ -	\$ -	\$ 55,798
Capital assets being depreciated:				
Treatment plant	10,132,783	-	-	10,132,783
Water and sewer system	3,138,443	-	-	3,138,443
Equipment	173,223	-	-	173,223
Water tower	936,526	-	-	936,526
Subtotal	14,380,975	-	-	14,380,975
Accumulated depreciation:				
Treatment plant	2,651,562	243,700	-	2,895,262
Water and sewer system	1,102,299	75,925	-	1,178,224
Equipment	90,077	11,610	-	101,687
Water tower	149,225	18,731	-	167,956
Subtotal	3,993,163	349,966	-	4,343,129
Net capital assets being depreciated	10,387,812	(349,966)	-	10,037,846
Net capital assets	<u>\$ 10,443,610</u>	<u>\$ (349,966)</u>	<u>\$ -</u>	<u>\$ 10,093,644</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 46,457
Public safety	79,246
Public works	14,356
Recreation and culture	21,965
Internal Service Fund - Depreciation charged to the various functions based on their usage of the asset	<u>45,772</u>
Total governmental activities	<u>\$ 207,796</u>
Business-type activities - Water and Sewer Fund	<u>\$ 349,966</u>

# City of Imlay City, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources		Fund Receiving Resources	Amount
General Fund	(1)	General Obligation Unlimited Tax Bond	\$ 27,485
General Fund	(1)	Transportation Bond Fund	18,047
Lamb Steele Fund	(3)	General Fund	7,500
Major Streets Fund	(2)	Local Streets Fund	50,000
Major Streets Fund	(1)	Transportation Bond Fund	20,047
Total governmental funds			<u>\$ 123,079</u>
Water and Sewer Fund	(1)	General Obligation Unlimited Tax Bond	\$ 27,485
Water and Sewer Fund	(3)	General Fund	7,500
Total			<u>\$ 34,985</u>

- (1) Transfer for debt service payments
- (2) Transfer of Act 51 revenue-sharing payments from the Major Streets Fund to Local Streets Fund as permitted by State law
- (3) Transfer for administrative costs incurred by the General Fund

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.



# City of Imlay City, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>				
General obligation bonds:				
1992 Michigan Transportation Bonds, annual installments of \$35,000 through July 2005, interest at 6.2 percent to 6.4 percent	\$ 35,000	\$ (35,000)	\$ -	\$ -
1992 general obligation unlimited tax bonds, annual installments of \$55,000 to \$65,000 through September 2007, interest at 6.00 percent to 6.15 percent	245,000	(55,000)	190,000	60,000
2005 general obligation limited tax bonds, annual installments of \$55,000 to \$100,000 through February 2025, interest at 3.00 percent to 4.55 percent	-	1,440,000	1,440,000	60,000
1999 State of Michigan Prospective Business and Industrial Park Loan, yearly installments of \$19,679 through 2014	191,870	(24,342)	167,528	19,679
2004 commercial promissory note, payable in annual installments of \$34,209, interest at 2.45 percent, through April 2009	159,000	(30,260)	128,740	31,011
Installment purchase agreements:				
1999 installment purchase agreement, payable in annual installments of \$7,236, interest at 3.75 percent, through October 2004	7,236	(7,236)	-	-
1999 installment purchase agreement, payable in annual installments of \$5,136 to \$16,903, interest at 3.75 percent, through October 2004	6,388	(6,388)	-	-
Compensated absences	127,406	16,557	143,963	20,060
Special assessment obligation (see Note 4)	-	704,897	704,897	35,245
Environmental remediation liability (see Note 10)	30,000	-	30,000	30,000
Total governmental activities	<u>\$ 801,900</u>	<u>\$ 2,003,228</u>	<u>\$ 2,805,128</u>	<u>\$ 255,995</u>

# City of Imlay City, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Business-type Activities</b>				
General obligation bonds:				
1995 limited tax general obligation refunding bonds, annual installments of \$75,000 to \$375,000 through October 2015, interest at 4.75 percent to 5.7 percent	\$ 1,595,000	\$ (1,595,000)	\$ -	\$ -
2004 limited tax general obligation refunding bonds, annual installments of \$80,000 to \$370,000 through October 2015, interest at 2 percent to 3.9 percent	-	1,610,000	1,610,000	90,000
Revenue bonds:				
2001 revenue bonds - Annual installments of \$70,000 to \$180,000 through October 2021, interest at 4.2 percent to 5.7 percent	2,060,000	(70,000)	1,990,000	75,000
1995 revenue bonds, annual installments of \$30,000 to \$60,000 through October 2015, interest at 5.3 percent to 5.9 percent	540,000	(30,000)	510,000	35,000
Total business-type activities	\$ 4,195,000	\$ (85,000)	\$ 4,110,000	\$ 200,000
<b>Component Unit Activity -</b>				
Downtown Development Authority - 1996 DDA Limited Tax Bonds in annual installments of \$95,000 to \$130,000 through December 1, 2004, including interest at 4.70 percent to 6.7 percent				
	\$ 130,000	\$ (130,000)	\$ -	\$ -

Annual debt service requirements to maturity for the above bonds and note obligations, not including environmental remediation and compensated absences, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 205,935	\$ 86,011	\$ 291,946	\$ 200,000	\$ 182,514	\$ 382,514
2007	206,707	102,127	308,834	205,000	174,285	379,285
2008	207,491	93,813	301,304	210,000	167,689	377,689
2009	143,304	87,178	230,482	210,000	159,474	369,474
2010	109,924	82,523	192,447	220,000	150,555	370,555
2011-2025	1,757,804	676,169	2,433,973	3,065,000	809,874	3,874,874
Total	\$ 2,631,165	\$ 1,127,821	\$ 3,758,986	\$ 4,110,000	\$ 1,644,391	\$ 5,754,391

# City of Imlay City, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

**Advance and Current Refundings** - During the year, the City issued \$1.6 million in general obligation bonds with an average interest rate of 3.6 percent. The proceeds of these bonds were used to advanced refund \$1.5 million of outstanding general obligation bonds with an average interest rate of 5.7 percent. The net proceeds of \$1,583,213 (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Water and Sewer Fund. The advanced refunding reduced total debt service payments over the next 10 years by approximately \$143,000, which represents an economic gain of approximately \$118,000.

### Note 7 - Restricted Assets

In accordance with revenue bond and other restrictions, cash and investments in the Water and Sewer Enterprise Fund have been restricted for the following purposes:

Revenue bond restrictions:

Operation and maintenance reserve	\$ 46,173
Bond interest and redemption reserve	126,486
Bond reserve	<u>263,505</u>
Total restricted assets	<u>\$ 436,164</u>

Retained earnings have been reserved for the amount of restricted assets at June 30, 2005.

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits and manages its liability, property, and workers' compensation risk by participating in the Michigan Municipal League public entity risk pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 8 - Risk Management (Continued)

The City has established an Internal Service Fund (Insurance Fund) used to cover employees' annual deductibles on health insurance claims. The plan covers medical and prescription costs up to \$1,000 per person per year for those employees in the Department of Public Works union group. As of June 30, 2005, the amount of claims incurred but not reported is immaterial and has not been recorded.

### Note 9 - Pension Plan

**Plan Description** - The City participates in the Municipal Employees' Retirement System of Michigan (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employer of 13.36 percent and 11.55 percent of gross wages for general and police and fire employees, respectively.

**Annual Pension Cost** - For the year ended June 30, 2005, the City's annual pension cost of \$120,474 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.90 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension costs (APC)	\$ 86,400	\$ 98,256	\$ 120,747
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

# City of Imlay City, Michigan

## Notes to Financial Statements June 30, 2005

### Note 9 - Pension Plan (Continued)

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/02	\$ 2,297,961	\$ 2,946,495	\$ 648,534	78	\$ 939,383	69
12/31/03	2,539,567	3,167,250	627,683	80	965,666	65
12/31/04	2,785,044	3,582,651	797,607	78	998,647	80

### Note 10 - Environmental Remediation

The City has determined that it has incurred a liability for environmental remediation costs resulting from contamination from the release of gasoline, diesel fuel, and heating oil from underground storage tanks formerly present at the Department of Public Works property. Accordingly, an estimated liability for \$30,000 has been recorded in governmental activities (see Note 6). A final determination has not been made concerning the City's ultimate obligation in this matter, and it is not possible to estimate whether an additional liability will be recorded in the future.

## **Required Supplemental Information**

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# City of Imlay City, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 1,461,256	\$ 1,461,256	\$ 1,461,256	\$ -
<b>Revenues</b>				
Property taxes	1,256,133	1,285,726	1,327,323	41,597
Licenses and permits	27,250	21,668	30,112	8,444
Federal revenue	-	99,367	99,367	-
State-shared revenues and grants	358,671	441,843	435,516	(6,327)
Charges for services	393,923	374,466	374,003	(463)
Fines and forfeitures	3,000	3,182	2,981	(201)
Interest and rentals	64,400	41,400	51,686	10,286
Transfers in	-	15,000	15,000	-
Other	9,250	5,898	12,790	6,892
Total revenues	2,112,627	2,288,550	2,348,778	60,228
<b>Expenditures</b>				
General government	490,471	965,681	947,356	18,325
Public safety	1,005,077	902,853	921,652	(18,799)
Public works	387,293	334,599	349,039	(14,440)
Recreation and culture	83,292	87,149	92,482	(5,333)
Capital outlay	199,700	189,654	170,777	18,877
Debt service	167,590	173,828	173,827	1
Transfers out	46,335	46,335	45,532	803
Total expenditures	2,379,758	2,700,099	2,700,665	(566)
<b>Fund Balance - End of year</b>	<b>\$ 1,194,125</b>	<b>\$ 1,049,707</b>	<b>\$ 1,109,369</b>	<b>\$ 59,662</b>

# City of Imlay City, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Lamb Steele Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 1,331,373	\$ 1,331,373	\$ 1,331,373	\$ -
<b>Revenues</b>				
Interest and rentals	95,000	87,500	99,295	11,795
Other	<u>7,500</u>	<u>7,500</u>	<u>7,500</u>	<u>-</u>
Total revenues	102,500	95,000	106,795	11,795
<b>Expenditures</b>				
Public works	73,980	40,730	43,657	2,927
Transfers out	<u>7,500</u>	<u>7,500</u>	<u>7,500</u>	<u>-</u>
Total expenditures	<u>81,480</u>	<u>48,230</u>	<u>51,157</u>	<u>2,927</u>
<b>Fund Balance - End of year</b>	<b><u>\$ 1,352,393</u></b>	<b><u>\$ 1,378,143</u></b>	<b><u>\$ 1,387,011</u></b>	<b><u>\$ 8,868</u></b>



# City of Imlay City, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Major Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 74,958	\$ 74,958	\$ 74,958	\$ -
<b>Revenues</b>				
Federal revenue	-	424,565	424,675	110
State-shared revenues	201,258	201,358	211,163	9,805
Interest and rentals	<u>2,500</u>	<u>2,685</u>	<u>4,057</u>	<u>1,372</u>
Total revenue	203,758	628,608	639,895	11,287
<b>Expenditures</b>				
Public works	140,795	281,182	271,389	(9,793)
Transfers out	<u>68,850</u>	<u>68,850</u>	<u>70,047</u>	<u>1,197</u>
Total expenditures	<u>209,645</u>	<u>350,032</u>	<u>341,436</u>	<u>(8,596)</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 69,071</b></u>	<u><b>\$ 353,534</b></u>	<u><b>\$ 373,417</b></u>	<u><b>\$ 19,883</b></u>

# City of Imlay City, Michigan

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## **Note to Required Supplemental Information June 30, 2005**

### **Note - Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the first commission meeting in April, the city manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund, Special Revenue Funds, and Debt Service Funds.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to the first Monday in May, the budget is legally enacted through passage of an ordinance.
- d. Formal budgetary integration is employed as a management control device during the year for all funds except the Agency Fund and Internal Service Fund.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the fund level.

Amounts encumbered for purchase orders, contracts, and other commitments are not tracked during the year. Budget appropriations are considered to be spent only when an expenditure has been recognized (i.e., when goods are received or services are rendered).

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

## **Other Supplemental Information**

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# City of Imlay City, Michigan

Special Revenue Funds				
	Local Streets	Industrial Park Development	Drug Forfeiture	Industrial Park Revolving Loan
<b>Assets</b>				
Cash and investments	\$ 115,570	\$ 102,622	\$ 3,926	\$ 50,882
Receivables	9,782	-	-	-
Total assets	<u>\$ 125,352</u>	<u>\$ 102,622</u>	<u>\$ 3,926</u>	<u>\$ 50,882</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 900	\$ -	\$ -	\$ -
Deferred revenue	5,202	-	-	-
Total liabilities	6,102	-	-	-
<b>Fund Balances</b>				
Reserved for debt service	-	-	-	-
Unreserved	119,250	102,622	3,926	50,882
Total fund balances	119,250	102,622	3,926	50,882
Total liabilities and fund balances	<u>\$ 125,352</u>	<u>\$ 102,622</u>	<u>\$ 3,926</u>	<u>\$ 50,882</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005**

Debt Service Funds		
	General Obligation	Total
Transportation Bonds	Unlimited Tax Bonds	Nonmajor Governmental Funds
\$ 1,782	\$ 485	\$ 275,267
-	-	9,782
<u>\$ 1,782</u>	<u>\$ 485</u>	<u>\$ 285,049</u>
\$ -	\$ -	\$ 900
-	-	5,202
-	-	6,102
1,782	485	2,267
-	-	276,680
<u>1,782</u>	<u>485</u>	<u>278,947</u>
<u>\$ 1,782</u>	<u>\$ 485</u>	<u>\$ 285,049</u>

# City of Imlay City, Michigan

	Special Revenue Funds			
	Local Streets	Industrial Park Development	Drug Forfeiture	Industrial Park Revolving Loan
<b>Revenue</b>				
State-shared revenues	\$ 60,776	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	485	-
Interest and rentals	-	4,430	-	260
Other	133	-	-	4,964
Total revenue	60,909	4,430	485	5,224
<b>Expenditures</b>				
Public safety	-	-	731	-
Public works	48,172	24,342	-	2,148
Debt service	-	-	-	-
Total expenditures	48,172	24,342	731	2,148
<b>Excess of Revenue Over (Under) Expenditures</b>	12,737	(19,912)	(246)	3,076
<b>Other Financing Sources - Transfers in</b>	50,000	-	-	-
<b>Net Change in Fund Balances</b>	62,737	(19,912)	(246)	3,076
<b>Fund Balances - Beginning of year</b>	56,513	122,534	4,172	47,806
<b>Fund Balances - End of year</b>	<u>\$ 119,250</u>	<u>\$ 102,622</u>	<u>\$ 3,926</u>	<u>\$ 50,882</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2005**

Debt Service Funds		
	General	Total
	Obligation	Nonmajor
Transportation	Unlimited Tax	Governmental
Bonds	Bonds	Funds
\$ -	\$ -	\$ 60,776
-	-	485
6	58	4,754
-	-	5,097
6	58	71,112
-	-	731
-	-	74,662
37,688	68,642	106,330
37,688	68,642	181,723
(37,682)	(68,584)	(110,611)
38,094	54,970	143,064
412	(13,614)	32,453
1,370	14,099	246,494
<u>\$ 1,782</u>	<u>\$ 485</u>	<u>\$ 278,947</u>

# City of Imlay City, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2005

	Motor Pool Fund	Insurance Fund	Totals
<b>Assets</b>			
Current assets - Cash and investments	\$ 88,767	\$ 1,763	\$ 90,530
Noncurrent assets - Capital assets	<u>232,235</u>	<u>-</u>	<u>232,235</u>
Total assets	321,002	1,763	322,765
<b>Liabilities</b> - Accounts payable	<u>1,120</u>	<u>-</u>	<u>1,120</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	232,235	-	232,235
Unrestricted	<u>87,647</u>	<u>1,763</u>	<u>89,410</u>
Total net assets	<u><u>\$ 319,882</u></u>	<u><u>\$ 1,763</u></u>	<u><u>\$ 321,645</u></u>



# City of Imlay City, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets Internal Service Funds Year Ended June 30, 2005

	Motor Pool Fund	Insurance Fund	Totals
<b>Operating Revenue - Charges for service</b>	\$ 85,017	\$ 11,791	\$ 96,808
<b>Operating Expenses</b>			
Salaries, wages, and fringe benefits	44,653	-	44,653
Supplies	4,616	-	4,616
Repairs and maintenance	12,552	-	12,552
Insurance	7,334	14,884	22,218
Other services and supplies	9,748	-	9,748
Depreciation	45,772	-	45,772
Total operating expenses	124,675	14,884	139,559
<b>Operating Loss</b>	(39,658)	(3,093)	(42,751)
<b>Nonoperating Revenue (Expense)</b>			
Investment income	1,723	8	1,731
Interest expense	(198)	-	(198)
Total nonoperating revenue	1,525	8	1,533
<b>Change in Net Assets</b>	(38,133)	(3,085)	(41,218)
<b>Net Assets - Beginning of year</b>	358,015	4,848	362,863
<b>Net Assets - End of year</b>	<u>\$ 319,882</u>	<u>\$ 1,763</u>	<u>\$ 321,645</u>

# City of Imlay City, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2005

	Motor Pool Fund	Insurance Fund	Totals
<b>Cash Flows from Operating Activities</b>			
Receipts from other funds	\$ 85,278	\$ 11,791	\$ 97,069
Payments to suppliers	(33,131)	(14,884)	(48,015)
Payments to employees	(44,653)	-	(44,653)
Net cash provided by (used in ) operating activities	7,494	(3,093)	4,401
<b>Cash Flows from Capital and Related Financing Activities -</b>			
Principal and interest paid on capital debt	(7,683)	-	(7,683)
<b>Cash Flows from Investing Activities -</b> Interest received on investments	2,273	8	2,281
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,084	(3,085)	(1,001)
<b>Cash and Cash Equivalents - July 1, 2004</b>	86,683	4,848	91,531
<b>Cash and Cash Equivalents - June 30, 2005</b>	<u>\$ 88,767</u>	<u>\$ 1,763</u>	<u>\$ 90,530</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (39,658)	\$ (3,093)	\$ (42,751)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	45,772	-	45,772
Changes in assets and liabilities	1,380	-	1,380
Net cash provided by (used in) operating activities	<u>\$ 7,494</u>	<u>\$ (3,093)</u>	<u>\$ 4,401</u>

October 14, 2005

The Honorable Mayor and Members of  
the City Commission  
City of Imlay City  
150 N. Main Street  
Imlay City, MI 48444

Dear Mayor and Members of the City Commission:

We recently completed our audit of the basic financial statements of the City of Imlay City for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

### **City's Financial Condition**

The City's General Fund expenditures exceeded revenue by approximately \$352,000 for the year ended June 30, 2005, decreasing total fund balance at June 30, 2005, to approximately \$1,109,000. Of this total, \$539,000 is reserved and designated for specific purposes and \$570,000 is unreserved and undesignated. The unreserved and undesignated fund balance is approximately 21 percent of the City's 2005 General Fund budget, which is comparable to prior year. In spite of financial challenges faced by many communities, the City is maintaining a solid financial position.

The City will continue to be faced with budgetary challenges such as legislative uncertainties and future needs. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. As such, we encourage the City Commission and administration to continue to closely monitor the budget and to accumulate a sufficient level of fund balance during favorable financial periods. Doing so will help ensure that the City is able to maintain an adequate level of working capital without affecting the level of services provided to citizens or the City's ability to meet future needs and obligations.

As discussed in more detail in the following item, State shared revenue is again at risk of being reduced in the current year. The City appears to be in a position to weather such a cut in the short term; however, there continue to be concerns from a long-term perspective.

### **State Revenue Sharing**

The City has and will continue to feel the effects of the slow down in the State's economy. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal year ending September 30, 2004 and 2005 were less than originally projected.

State shared revenue accounts for approximately 18% of the City's total General Fund revenue. The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. The total cumulative decrease in state shared revenue over the last five years as compared to the amount the City received in 2001 is \$309,543 (the amount the City would have received if 2002 through 2005 were funded at 2001 levels.)

State Fiscal Year	Statutory	Constitutional	Total
2001	281,141	251,067	532,208
2002	245,648	253,625	499,273
2003	215,595	257,918	473,513
2004	170,452	255,119	425,571
2005	159,726	261,206	420,932

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$160,000 at risk in its General Fund budget based on 2005 funding levels.

Currently, the State's Executive 2005/2006 fiscal year budget recommendation includes funding of state shared revenue at the same level as the year 2004/2005 amounts. This budget includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable. We will continue to update the City as developments occur.

**Public Accounting Update - Change to the Deposit and Investment Footnote**

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 40, Deposit and Investment Risk Disclosures. This statement expands the required report disclosures related to the City's deposits and investments. The City successfully implemented this new reporting standard in the June 30, 2005 financial report, accordingly the deposit and investment footnote to the financial statements has changed significantly from previous years.

Once again, we thank you for the opportunity to serve as auditors for the City. We truly appreciate the assistance we received from Ms. Planck, Ms. Zuhlke and all of your staff during our audit. We enjoyed working with them throughout the audit. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Christina M. Kostiuk

cc: Ms. Amy Planck  
Ms. Janice Zuhlke